

1 **VIRGINIA TOBACCO INDEMNIFICATION**
2 **AND COMMUNITY REVITALIZATION COMMISSION**

3 701 East Franklin Street, Suite 501

4 Richmond, Virginia 23219

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9 **Full Commission Meeting**

10 Tuesday, January 9, 2007

11 10:00 a.m.

12
13 General Assembly Building, House Room C

14 Richmond, Virginia

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1 **APPEARANCES:**

- 2 The Honorable Charles R. Hawkins, Chairman
- 3 The Honorable Terry G. Kilgore, Vice Chairman
- 4 Mr. Thomas W. Arthur
- 5 Mr. Stephen S. Banner
- 6 Mr. William Dickinson, Department of Agriculture
- 7 Mr. Clarence D. Bryant, III
- 8 The Honorable Kathy J. Byron
- 9 Mr. Bernie K. Day
- 10 The Honorable Allen W. Dudley
- 11 Mr. Fred M. Fields
- 12 The Honorable Patrick Gottschalk, Secretary of the Department of
- 13 Commerce and Trade
- 14 Mr. Scott M. Harwood, Sr.
- 15 Mr. L. Jackson Hite
- 16 The Honorable Clarke N. Hogan
- 17 Mr. Jordan M. Jenkins, Jr.
- 18 The Honorable Joseph P. Johnson, Jr.
- 19 Mr. Buddy Mayhew
- 20 Mr. H. Ronnie Montgomery
- 21 The Honorable Harrison A. Moody
- 22 Ms. Connie G. Nyholm
- 23 The Honorable Edward Owens
- 24 The Honorable Phillip P. Puckett
- 25 The Honorable Frank M. Ruff

1 **APPEARANCES: (cont'd)**

2 Mr. John M. Stallard

3 Mr. Bryant L. Stith

4 Mr. James C. Thompson

5 The Honorable William C. Wampler

6 The Honorable Jody Wagner, Secretary of Finance

7 Mr. Thomas E. West

8 The Honorable Thomas C. Wright, Jr.

9

10 COMMISSION STAFF:

11 Mr. Neal Noyes, Executive Director

12 Mr. Ned Stephenson, Director of Investments

13 Mr. Timothy Pfohl, Grants Program Administration Manager

14 Ms. Stephanie Wass, Director of Finance

15 Ms. Britt Nelson - Grants Coordinator, Southside Virginia

16 Ms. Sara Griffith - Grants Coordinator, Southwest Virginia

17

18 OFFICE OF THE ATTORNEY GENERAL:

19 Mr. Francis N. Ferguson, Deputy Attorney General,

20 Counsel for the Commission

21 Ms. Stephanie Hamlett, Senior Assistant Attorney General,

22 Bond Counsel

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1 SENATOR HAWKINS: Good morning,
2 everyone. I'd like to get started, and I'll ask everybody to take their seat.

3 Neal, would you call the roll?

4 MR. NOYES: Mr. Arthur?

5 MR. ARTHUR: Here.

6 MR. NOYES: Mr. Banner?

7 MR. BANNER: Here.

8 MR. NOYES: Secretary Bloxom?

9 MR. DICKINSON: Bill Dickinson here,
10 representing Secretary Bloxom.

11 MR. NOYES: Mr. Bryant?

12 MR. BRYANT: Here.

13 MR. NOYES: Delegate Byron?

14 DELEGATE BYRON: Here.

15 MR. NOYES: Mr. Day?

16 MR. DAY: Here.

17 MR. NOYES: Delegate Dudley?

18 DELEGATE DUDLEY: Here.

19 MR. NOYES: Mr. Fields?

20 MR. FIELDS: Here.

21 MR. NOYES: Secretary Gottschalk?

22 SECRETARY GOTTSCHALK: Here.

23 MR. NOYES: Mr. Harwood?

24 MR. HARWOOD: Here.

25 MR. NOYES: Senator Hawkins?

1 SENATOR HAWKINS: Here.
2 MR. NOYES: Mr. Hite?
3 MR. HITE: Here.
4 MR. NOYES: Delegate Hogan?
5 DELEGATE HOGAN: Here.
6 MR. NOYES: Mr. Jenkins?
7 MR. JENKINS: Here.
8 MR. NOYES: Delegate Johnson?
9 DELEGATE JOHNSON: Here.
10 MR. NOYES: Delegate Kilgore?
11 DELEGATE KILGORE: Here.
12 MR. NOYES: Ms. Lane?
13 MS. LANE: (No response.)
14 MR. NOYES: Mr. Mayhew?
15 MR. MAYHEW: Here.
16 MR. NOYES: Mr. Montgomery?
17 MR. MONTGOMERY: Here.
18 MR. NOYES: Mr. Moody?
19 MR. MOODY: Here.
20 MR. NOYES: Ms. Nyholm?
21 MS. NYHOLM: Here.
22 MR. NOYES: Mr. Owens?
23 MR. OWENS: Here.
24 MR. NOYES: Senator Puckett?
25 SENATOR PUCKETT: Here.

1 MR. NOYES: Senator Ruff?

2 SENATOR RUFF: Here.

3 MR. NOYES: Mr. Stallard?

4 MR. STALLARD: Here.

5 MR. NOYES: Mr. Stith?

6 MR. STITH: Here.

7 MR. NOYES: Mr. Thompson?

8 MR. THOMPSON: Here.

9 MR. NOYES: Secretary Wagner?

10 SENATOR WAMPLER: Here.

11 MR. NOYES: Mr. West?

12 MR. WEST: Here.

13 MR. NOYES: Delegate Wright?

14 DELEGATE WRIGHT: Here.

15 MR. NOYES: You have a quorum, Mr. Chairman.

16 SENATOR HAWKINS: Thank you. Do we have
17 a motion for approval of the Minutes of the November 9th meeting? It's
18 been moved and seconded that the Minutes be approved as presented. All in
19 favor say aye? (Ayes.) Opposed? (No response.) The Minutes are
20 approved.

21 All right, Indemnification Update, we'll skip that. Let's go to
22 Agribusiness. Mr. Bryant.

23 MR. BRYANT: Mr. Chairman, the Agribusiness
24 Committee met on December 7th, 2006 in Floyd, Virginia. I have a motion
25 I'd like to make to the Commission on the first item of business. The

1 Agribusiness Committee recommends that the Commission continue to use
2 the 1998 Farm Service Agency database for making Phase I indemnification
3 payments to burley and flue producers for the year 2007.

4 SENATOR HAWKINS: Is there a second to that
5 motion? There's a second, any discussion? Does everyone understand the
6 motion? All in favor say aye? (Ayes.) Opposed? (No response.) The
7 motion carries.

8 MR. BRYANT: The second motion is that the
9 Agribusiness Committee recommends that the Commission accept
10 approximately 1.7 million from the National Tobacco Growers' Settlement
11 Trust for subsequent distribution to tobacco growers and quota holders under
12 the same terms and conditions as Phase I monies are to be paid to them by
13 the Commission, and that the Executive Director be hereby authorized to
14 execute for the Commission those documents necessary to consummate the
15 transaction. That is in the form of a motion.

16 SENATOR HAWKINS: Is there a second to the
17 motion? It's been moved and seconded, any discussion? Does everyone
18 understand the motion? All those in favor say aye? (Ayes.) Opposed? (No
19 response.) The motion carries.

20 MR. BRYANT: The Agribusiness Committee
21 reviewed 15 projects, which came to a total of \$3,446,762.95. The
22 Committee's recommendation is to fund six grants totaling \$1,305,514.00, as
23 shown in your book. I hereby make a motion for the Commission to accept
24 in a block the recommendations from the Agribusiness Committee. That is a
25 motion.

1 SENATOR HAWKINS: It's been moved and
2 seconded, does everyone understand the motion? Any discussion? All those
3 in favor say aye? (Ayes.) Opposed? (No response.) The motion carries.

4 MR. BRYANT: That completes the Agribusiness
5 Committee's business.

6 SENATOR HAWKINS: Thank you. I understand
7 Mr. Rosenthal is here.

8 MR. ROSENTHAL: I'm here.

9 SENATOR HAWKINS: Good morning, thank
10 you, I guess I should have said former Attorney General.

11 MR. ROSENTHAL: Very quickly, Mr. Chairman
12 and members of the Commission. We finished the 2006 indemnification
13 payments with a follow-up round of payments on December 20th. The third
14 round includes 269 claims totaling a little over \$20,300. That was made up
15 primarily of claims that were submitted timely, but was missing information
16 completing a change in ownership. In total 45,771, totaling just shy of \$13
17 million, were paid during the 2006 Phase I program. This represents 95
18 percent of the total available indemnification budget for 2006.

19 For 2007 our program schedule is adjusted to be as follows.
20 From April 23 to April 25 we'll mail out the verification forms to the eligible
21 growers and producers. Between May 7th and May 11th we'll have work
22 sessions in Halifax, Pittsylvania, Brunswick, Scott, Washington and Lee
23 counties for growers and producers, assisting them in the completion of the
24 forms. May 16th will be the deadline for the submission of the verification
25 form. During the week of June 4 we'll begin the first round of payments.

1 SENATOR HAWKINS: Thank you, sir. Once
2 again, it's always good to have you here, and I know you've done an
3 outstanding job. Any questions?

4 Delegate Johnson.

5 DELEGATE JOHNSON: Mr. Chairman, I'd like
6 the Commission to know the burley tobacco farmers, the farming
7 community appreciates Mr. Rosenthal and Mr. Lewis coming to the
8 communities so that they can hash out some of the problems they have, and
9 it's been very good. I think that's saved a lot of headaches by the effort that
10 they have made to come out and discuss issues with the farmers and make
11 sure things are done right. I want the Commission to know we appreciate
12 them in Southwest Virginia.

13 SENATOR HAWKINS: I think we can echo the
14 appreciation for the efforts they have put forth in this and have done good
15 work.

16 MR. ROSENTHAL: Thank you, Mr. Chairman.

17 SENATOR HAWKINS: Thank you. Next item is
18 the Southside Economic Development report. Mr. Arthur.

19 MR. ARTHUR: Thank you, Mr. Chairman.
20 Yesterday afternoon the Southside Economic Development Committee met
21 for a second round of allocations for the counties to request funds. We
22 reviewed six projects, one of which was withdrawn, leaving five. The
23 Committee voted to fund three, for a total of \$2,248,801. We move that you
24 accept the Committee's report. And I so move.

25 SENATOR HAWKINS: It's been moved and

1 seconded that the Southside Economic Development Committee report be
2 agreed to. Any discussion? Does everyone understand the motion? All in
3 favor say aye? (Ayes.) Opposed? (No response.) The motion carries.

4 Moving to Technology, the Honorable Clarke Hogan.

5 MR. NOYES: Mr. Chairman, the matter that the
6 Technology Committee would address was referred to the Education
7 Committee that Senator Ruff chairs.

8 SENATOR HAWKINS: We'll by-pass the
9 Technology report and move to the Education Committee.
10 Senator Ruff.

11 SENATOR RUFF: Thank you, Mr. Chairman.
12 Education Committee met at 3:30 yesterday. On behalf of the Education
13 Committee there are two motions. On behalf of the Education Committee I
14 move that the Commission approve 1.5 million to each of the following
15 applicants: the Institute for Advanced Learning and Technology, the New
16 College Institute, and the Southern Virginia Higher Education Center for the
17 project entitled, Southside Partnership for Technology-Enabled Education. I
18 would so move.

19 SENATOR HAWKINS: It's been moved and
20 seconded that we accept the Education Committee's report, as has been
21 agreed to. Does everyone understand the report? Any questions or
22 comments or discussion? All in favor say aye? (Ayes.) Opposed? (No
23 response.) The motion carries.

24 SENATOR RUFF: The Education Committee
25 would ask you also to name the Southwest Virginia Higher Education Center

1 as the grantee for grant number 1245 to administer the grants and as the
2 administrator of grants 1245 and 1246, which are the two scholarship
3 programs in Southside and Southwest. I would so move.

4 SENATOR HAWKINS: It's been moved and
5 seconded to be agreed to. Does everyone understand the motion? Any
6 questions, or comments, or discussion? All in favor say aye? (Ayes.)
7 Opposed? (No response.) The motion carries. Thank you for your report.

8 Moving along, we now have the Executive Committee report.
9 Delegate Kilgore.

10 DELEGATE KILGORE: Thank you, Mr.
11 Chairman. I've got a few items here that might take a little time.

12 SENATOR HAWKINS: This is the meat of the
13 meeting, this is what we've been trying to do for the last several years. This
14 will be an opportunity to make a difference.

15 DELEGATE KILGORE: The first motion we had
16 with the Executive Committee yesterday, and yesterday we recommended
17 that the Commission amend its fiscal year 2007 budget to increase
18 indemnification from 10,711,000 to 15,625,905, with such increase to be
19 funded from the following sources. Reserves is 1,913,376, indemnification
20 reserve, 1,301,529 2005 Phase II receipts 1,700,000, for a total of 4,914,905.
21 I would move we amend our fiscal year budget to increase indemnification.

22 SENATOR HAWKINS: It's been moved, is there
23 a second? There's a second. It's been moved and seconded. Any discussion
24 or any questions? Any comments? All in favor say aye? (Ayes.) Opposed?
25 (No response.) The motion carries.

1 DELEGATE KILGORE: Next we would
2 recommend that the Commission amend its fiscal year 2007 budget to
3 transfer \$4 million from restricted Special Projects to restricted Technology
4 exclusively for use in Southwest Virginia.

5 SENATOR HAWKINS: It's been moved and
6 seconded. Does everyone understand the motion? Any questions,
7 comments? All those in favor say aye? (Ayes.) Opposed? (No response.)
8 The motion carries.

9 DELEGATE KILGORE: The Executive
10 Committee recommends that the Commission amend its fiscal year 2007
11 budget and transfer 4.5 million from unrestricted Special Projects to
12 unrestricted Education Committee to accommodate additional Education
13 Committee initiatives approved by it yesterday and just a few minutes ago.
14 That's a motion.

15 SENATOR HAWKINS: Is there a second to the
16 motion? There's a second to the motion. It's been moved and seconded.
17 Does everyone understand the motion? Are there any questions, discussion?
18 All those in favor say aye? (Ayes.) Opposed? (No response.) The motion
19 carries.

20 DELEGATE KILGORE: At this time, Mr.
21 Chairman, I would like to call on Ned Stephenson to explain the next few
22 motions.

23 SENATOR HAWKINS: Before we get started
24 with this, we started this securitization discussion a number of years ago, the
25 possibility of securitizing. We offered a securitization plan and it fell apart,

1 and we offered another one, and we were able to sell half of the revenues
2 that are a taxable situation that kind of limits flexibility for those monies.
3 We now have an opportunity to complete that mission and securitize the rest.
4 It is also an opportunity to go back and pick up some extra money. In my
5 mind, and I'd like to plant this little seed, so we can all think about it. If,
6 indeed, we consummate this deal to securitize our monies, it gives us a
7 known source of revenue and takes us out of the market place so we won't
8 have to worry about the ups and downs of the market. It gives us a full
9 control and understanding of our destinies, because the money will be in
10 place, and we'll know what they are. By doing that, the current structure that
11 we're working under does not reflect that reality.

12 We need to start looking at what we can do to be more
13 responsive dealing with this known source of revenue, rather than what
14 we've done in the past, based on allocations and based on assumptions. This
15 is going to allow us to do some long-term planning. We need to be aware
16 that once we securitize these monies, if we do, we're going to look at a
17 whole new dynamic that is going to require us to go back and look at the
18 structure of this Commission from the bottom to the top to make sure it
19 reflects us being a management agency for this amount of money, rather
20 than a distribution point based on a formulary. That's going to require a
21 different concept and something we have not done before. In my mind, if
22 we do one, we're going to have to do the other, and if not it leads itself to
23 what I call an unbalanced distribution of a fairly large amount of money.
24 Thank you.

25 MR. STEPHENSON: Thank you, Mr. Chairman.

1 Members of the Commission, yesterday the Executive Committee met and
2 considered the question of whether or not to securitize the remaining half of
3 your revenue stream and to resecuritize the existing 2005 bond issue it sold.
4 The Committee yesterday approved both of those transactions, and Vice
5 Chairman Kilgore has those motions ready for you. Before we hear those
6 motions, a couple of the commissioners yesterday asked that we take the
7 extra time that's necessary this morning to make sure that we have full
8 disclosure for every commissioner here as to the implications of what
9 happens to us when we do this and provide time for your questions so that
10 we enter into this as informed as we possibly can be.

11 SENATOR HAWKINS: During this entire
12 presentation, please ask questions and probe and find out all the things you
13 need to find out prior to taking a vote on this. I hope by doing this we'll
14 have an area of comfort as we begin this process, and therefore feel free to
15 interrupt with any questions you may have.

16 MR. DAY: Mr. Chairman, thank you for that
17 invitation.

18 SENATOR HAWKINS: I don't believe you have
19 ever needed that invitation, as far as I know, Barnie.

20 MR. STEPHENSON: With us today --

21 MR. DAY: -- I apologize, I do have a question.
22 I'm not the brightest bulb in the marquee, but it seems to me that a good
23 starting place this morning would be if you could tell us exactly how the
24 securitization process works. I would ask that you use short sentences,
25 simple words, and go slow.

1 MR. STEPHENSON: Mr. Day, we have with us
2 this morning, and also was with us yesterday in the Executive Committee
3 meeting, a financial advisor, First Southwest, in the person of Steve Kantor,
4 who is seated right here. I did not say this yesterday, and I was remiss in not
5 saying it. Steve serves as a fee-paid financial advisor to this Commission.
6 Regardless of the outcome of this, up or down, he gets paid the same nickel,
7 so he is an unbiased advisor to you, just as he has served in the previous
8 transaction. Steve has your history, and he knows where we are with this,
9 and he has been engaged by the Commission to give us advice on this matter
10 regarding the outcome. So I would like for Steve to address that question,
11 and if that's inadequate, then some more of us will try.

12 Steve.

13 MR. KANTOR: Good morning, Mr. Chairman.
14 Mr. Day, I'll try to use short sentences, but if I regress, please interrupt me.

15 Essentially, the choice facing the Commission, as the Chairman
16 outlined this morning, and that is, you have one or two choices. One is to do
17 the securitization, which would create certainty in terms of the amount the
18 Commission has. The other choice is to continue on the path where the
19 Commission is subject to the fluctuations of the MSA payment. As you
20 know, each year the Commission receives a portion of this payment
21 allocated to the Commonwealth, based on the amount of cigarettes that are
22 consumed in the United States. What the securitization would do, it would
23 transfer that risk to the investor, and in exchange for that the investor would
24 pay you a definitive amount, which is due today. Regardless of what
25 happens to the payments in the future, whether they go up or they go down,

1 or whether they be eliminated, the Commission would have this amount
2 certain, and the investor would bear the risk of what happens in the MSA
3 payments.

4 MR. DAY: If I might ask, the question before us
5 is some unknown future value versus a certain present value?

6 MR. KANTOR: Yes. Once the bonds are paid
7 off, and in the future we hope to pay off the bonds, the MSA payments will
8 revert back to the Commission, and depending on the structure that we end
9 up doing, that would be some 25 to 30 years from now, depending on the
10 market, but in the next 30 years those payments will not go to the
11 Commission but will go to the investors, and the Commission will get an up-
12 front sum today, and they would be able to plan their financial money out.

13 SENATOR HAWKINS: The deal on the MSA, it's
14 my understanding that all the money is based on sales of domestic, domestic
15 sales of cigarettes. My understanding is, that's not what I'd call real
16 promising at this time.

17 Barnie.

18 MR. DAY: What is your best guess that the
19 present value certainty will cost us? What's the difference between the
20 future value and the present value?

21 MR. KANTOR: that's a difficult question to
22 answer, but let me try.

23 MR. DAY: It was a difficult one to ask.

24 MR. KANTOR: I appreciate that. As the
25 Chairman just mentioned, the amount of payments over the next period of

1 time are subject or based on domestic sales and cigarette consumption in the
2 50 states and the United States territories. It's very difficult to predict what
3 will happen during that time, and as a result of that, and as you know, there
4 are many legislative initiatives to ban smoking in public areas. There is a
5 significant amount of litigation, but while some of it has been solved, there
6 remains litigation outstanding against tobacco companies. There is
7 remaining litigation against the MSA itself, several suits have been
8 challenged about the validity of the MSA, in terms of both state and local
9 constitutionality. There is a significant amount of uncertainty as to those
10 payments, as well as people continuing to consume cigarettes.

11 The industry has developed an industry forecast over time,
12 which will demonstrate what at least one expert expects to happen over the
13 next 30 years. We have a list of the consumption schedule, which changes
14 basically every quarter when new statistics come out. Based on the last
15 statistical analysis, and they will be completing one again this quarter, we
16 have tried to figure out what the Commission would be able to receive today
17 versus this expectation, and what will happen in the future, depending on a
18 variety of assumptions, which are in terms of bond ratings and the type of
19 debt that we would structure to complete the securitization, and the amounts
20 range on this particular amount from about \$460 million to \$478 million. If
21 we are able to securitize the entire amount, we may be able to have that in
22 place. From 410 to 480, and basically that's the differential in terms of what
23 we could say if we were selling bonds today to complete the securitization,
24 that's what the Commission would receive. If we waited and calculated it
25 over the 30-year period, we would add up those payments and then make

1 that comparison and use a present value factor back in terms of the interest
2 rate. Essentially, we're using about a 6 or 6 1/2 or 6 3/4 cost of funds to
3 calculate that. That's sort of the cost in terms of the interest rate calculation
4 that you're giving up.

5 MR. DAY: The buyers, we're on the selling side,
6 so we view the risk from a different perspective than do the buyers. I would
7 assume that the buyers have done exactly the calculation that I asked you
8 about. They have made some reasonable assumptions on the money that
9 they will make on this proceeding.

10 MR. KANTOR: Yes, the buyers have the same
11 information that you do, and they also have alternative investments. You
12 can buy a CD from a bank, you can buy a treasury bill, you can buy a bond
13 from the Commonwealth, you can buy stocks. Buyers have alternative
14 investments, and they weigh their risks versus their return, and many of
15 them have decided this is an adequate investment return. Many people say
16 it's too risky, and they do not buy them.

17 MR. DAY: How much money do they think
18 they're going to make?

19 MR. KANTOR: When they purchase a bond, they
20 expect to get repaid the entire principal plus interest, plus an interest rate.
21 The interest rate we assume depending upon the length of maturity that you
22 buy and how long it's going to be out there is approximately 6 to 6 3/4
23 percent. So 6 1/2 to 6 3/4 percent at today's market rate. The market, as you
24 know, changes minute by minute. We could have lower interest rates or
25 higher interest rates. But for purposes of our analysis use somewhere around

1 a 6 3/4 interest rate.

2 MR. DAY: Thank you.

3 SENATOR HAWKINS: Any other questions?

4 MR. STEPHENSON: Don't go away. I think it
5 might be helpful to stimulate some thought in your minds if we take just a
6 minute, and this is very basic. Looking at what we did in 2005, in 2005 you
7 sold off one-half of your payment stream for \$389 million, a tax-exempt
8 deal. That's the essence of that transaction. In that transaction the discount
9 rate, which Bernie equates to present value and future value, was 6.95
10 percent discount, tax-exempt. It's important, in my mind, to know that that
11 discount rate includes everything in the transaction, and most particularly it
12 reflects the time value of the money, the transaction costs of getting the deal
13 done, and the premium you paid to lay that risk off to the buyer. That one
14 number. In comparison, the numbers that Steve has given to us as a market
15 interest rate for now is to sell the other half of the payment stream for \$460
16 million, plus or minus, and the discount rate in that transaction is about 6.75
17 taxable. That is comparing what you did a couple of years ago, versus what
18 you're doing today.

19 SENATOR HAWKINS: Let us also understand
20 that by doing taxable and non-taxable it gives us the flexibility that we have
21 today with our current flow of money, as well as the restricted part that we
22 have. We have the flexibility with this that we currently have today.

23 MR. STEPHENSON: The Committee's
24 recommendation is that this be a taxable issue so that you are unrestricted in
25 any way as to the use of the proceeds.

1 Another way of looking at this was asked for by a couple of our
2 commissioners, and they wanted us to show you a little bit about how this
3 Endowment is going to behave if we do this, and I think the essential
4 question was this: How much will we have to invade the Endowment in
5 order to maintain our normal program activity that we have been doing?
6 How long will it be before that Endowment is consumed? That assignment
7 fell to our Stephanie Wass, and last night after the reception Stephanie
8 prepared some numbers to try to answer that question. I'd like for Stephanie
9 to come and tell us about her work.

10 MS. WASS: On the third page of the handout
11 there is a spreadsheet with a lot of numbers. The left-hand column shows
12 the estimated MSA payments based on the latest estimate, and that would be
13 half of our remaining share that we receive annually. The following
14 columns show how much we would have to invade the corpus, assuming that
15 we had total taxable securitization proceeds of 585 million, how much we
16 would have to invade the corpus each year to match what we would get
17 annually from the MSA payment. The expected maturity of the bonds is
18 around FY2030. As you can see on the chart, around that time, if we were to
19 spend down the endowment, when that endowment would basically go to
20 zero, and the MSA payments would start returning to us. That does change
21 if the cash flow doesn't happen as expected, or if the funds are reduced, or if
22 they go away.

23 SENATOR HAWKINS: I note with some interest
24 the date which stands out in my mind, apparently somebody is going to
25 retire. I didn't realize you were that young. Before you sit down, Stephanie,

1 I want to thank you for this extra work, and I know this was dropped in your
2 lap last night after the discussion, and I don't want to know how long it took
3 to do this, but congratulations for the work you've done, and thank you,
4 again. I'll also note your retirement date with some interest.

5 DELEGATE DUDLEY: Mr. Chairman, looking at
6 the chart that Stephanie has presented, I'm wondering how can you reconcile
7 the statement that the MSA payments are going down and the chart says the
8 payments are going up?

9 MR. KANTOR: The MSA Agreement calls for a
10 cost of living increase each year. So, while the number of cigarettes that are
11 consumed is projected to go down, the payments will actually go up, due to
12 the cost of living increase. So the disconnect between what's happening in
13 terms of consumption, which is scheduled to decline, but the payments
14 actually go up due to the cost of living increase and other parts of the MSA.

15 SENATOR HAWKINS: Does this actually reflect
16 market conditions?

17 MR. KANTOR: It's just assumptions.

18 SENATOR HAWKINS: When you look at
19 legislation that is pending and legislation that's passed, an educated guess
20 would be highly speculative in nature?

21 MR. KANTOR: The answer to that, Mr.
22 Chairman, is that the rating agencies who are in charge of marketing, they
23 say these investments are investment grade, but they're below investment
24 grade, so there is a great deal of speculation in terms of protection of
25 revenues and security of revenue stream.

1 DELEGATE DUDLEY: Mr. Chairman, following
2 up on that, yesterday, I think, in the Executive session you gave us
3 information and said, let me ask you this first. Are bond investors stupid
4 people?

5 MR. KANTOR: No, sir.

6 DELEGATE DUDLEY: In fact, wouldn't you say
7 they're probably a little better financially educated than most people?

8 MR. KANTOR: Not required, as far as education
9 requirements, but it's a free market place, and we try to provide information
10 for everyone so they can make a knowledgeable decision.

11 DELEGATE DUDLEY: Yesterday you were
12 telling us that there are bond investors out there that are willing to go 60
13 years on the purchase of these receivables.

14 MR. KANTOR: There are a limited number of
15 investors that are willing to take that risk on unrated securities, yes, sir.

16 DELEGATE DUDLEY: Thank you.

17 SENATOR HAWKINS: Any other questions?
18 Comments? Any more statements?

19 MR. DAY: Mr. Chairman, I do have one other
20 observation on the math. If we take this chart that Delegate Dudley just
21 referenced and we take the MSA estimate and run it through the life of at
22 least the chart, then we're estimating future payments totaling 1,882,800,000.
23 We're proposing to trade that for the first half of 389 million, and the second
24 half that we're contemplating now, 460 million, for a total of \$849 million.

25 SENATOR HAWKINS: There's another piece

1 you need to add into that column if you look at that column based on the
2 restructuring that we've already sold.

3 MR. KANTOR: One hundred twenty-five. The
4 total we estimate that would be available to the Commission if the
5 Commission decided to (a) restructure the 2005 transaction and securitize
6 the transaction in 2007, it would be approximately \$909 million. If you go
7 down the entire chart, you'd have to make some apples-to-apples
8 comparisons, including the amounts that are on that chart that would exceed
9 after the bonds are retired, then you'd be able to compare that.

10 MR. DAY: In simple language, Mr. Chairman, it
11 seems to me that we're trading a bird-in-the-hand of about \$900 million for
12 one in the bush of about 2 billion. Would that be correct?

13 MR. KANTOR: If you give me a moment, I'll
14 check your numbers, sir. Certainly that is the concept involved, and we have
15 some certainty with the \$900 million, and there's a significant uncertainty if
16 you accept the risk for taking the MSA payment over the life of the
17 transaction.

18 SENATOR HAWKINS: That's the question, and
19 that's what we have to deal with.

20 SENATOR RUFF: Mr. Chairman, I have a
21 question.

22 SENATOR HAWKINS: Senator Ruff.

23 SENATOR RUFF: Stephanie, on your 5.1 interest
24 figure, is that figured on the new balance of 909, or was that figured on the
25 new additional 585?

1 MS. WASS: The unrestricted portion, which is the
2 additional money we would get for the restructuring and securitizing the
3 other half. This chart does not show what we've already done with restricted
4 funds.

5 SENATOR RUFF: This would just be the new
6 additional interest?

7 MS. WASS: Yes.

8 SENATOR HAWKINS: Projected interest
9 accumulation, that's calculated into it?

10 MS. WASS: That would be the securitization of
11 the other half, but additional proceeds from restructuring the 2005 bond, all
12 of that is unrestricted money.

13 SENATOR HAWKINS: Does that answer your
14 question?

15 SENATOR RUFF: Yes.

16 DELEGATE DUDLEY: Mr. Chairman.

17 SENATOR HAWKINS: Delegate Dudley.

18 DELEGATE DUDLEY: I thought I was following
19 you, and then you got me confused again. Stephanie, are you saying that the
20 \$28 million for fiscal year '09 includes additional earnings from the
21 restructuring of the first part of the securitization?

22 MS. WASS: The proceeds that we would receive
23 from the restructuring would be pulled together with the securitized other
24 half, and that entire pool would then earn interest at usually a higher rate
25 than what our restricted funds can be invested in, since they are restricted as

1 to what they can get invested in.

2 DELEGATE DUDLEY: Is the MSA estimate
3 payment, if we had all of it back, is that what the estimated payment would
4 be, or would it be twice that much if we never securitized the first half?

5 MR. STEPHENSON: The MSA payment stream
6 you see before you is half of the total that was allocated to the Commission
7 in the beginning.

8 DELEGATE DUDLEY: We're only dealing with
9 half of that?

10 MR. STEPHENSON: Half of it's gone.

11 DELEGATE DUDLEY: Half of it is already
12 gone?

13 MR. STEPHENSON: Yes. This is the other half.

14 DELEGATE DUDLEY: So if you're saying
15 investing the second half we receive \$28 million interest, it's not on the
16 second half, you've got to go back and tie the whole thing back together?

17 MR. STEPHENSON: It's only on the proceeds
18 that we receive from this transaction.

19 DELEGATE DUDLEY: Stephanie, is that right?
20 That's not what you told me a minute ago.

21 MS. WASS: The restricted side that we've already
22 securitized, that interest is in a separate, I didn't do the calculations here.
23 That does continue to earn interest at a lower rate; that would continue to
24 earn interest.

25 DELEGATE DUDLEY: Mr. Chairman.

1 SENATOR HAWKINS: I think Secretary Wagner
2 can answer that.

3 SECRETARY WAGNER: I think what we might
4 be missing here, there's about a hundred and some million that's additional in
5 that 549 million. There are two transactions. One is refinancing the original
6 deal, which raises 125 million. Then there's the second half, which raises
7 460 million. If you really wanted to make an apples-to-apples comparison
8 here, your balance in the beginning to match your MSA probably would be
9 what, 460?

10 MS. WASS: Yes.

11 SENATOR HAWKINS: Delegate Dudley.

12 DELEGATE DUDLEY: The 28 million includes
13 refinancing and obtaining approximately 125 million from the first
14 securitization.

15 SECRETARY WAGNER: Yes.

16 DELEGATE DUDLEY: It's not a return on the
17 second transaction?

18 MS. WASS: It's combined, it's both. All of the
19 unrestricted proceeds that we receive from both the restructuring and --

20 DELEGATE DUDLEY: -- So we would receive
21 part of that by refinancing the first part without doing the second part, and
22 we'd still have some figure larger than we have today. Is that what you're
23 saying?

24 MR. STEPHENSON: Yes.

25 SENATOR HAWKINS: Any other questions?

1 MR. STEPHENSON: Mr. Chairman, in your
2 package you have before you, the first page under the cover sheet is a
3 synopsis of yesterday's Executive Committee recommendation. I'm moving
4 now to the point at which I'm going to hand it back to you or to Vice
5 Chairman Kilgore for him to bring the Executive Committee's
6 recommendation forward.

7 SENATOR HAWKINS: Before we get into that,
8 let's do two things. We're looking at two different items entirely. One deals
9 with a restructuring of what we've already committed ourselves to do and
10 going back to the market and extending that obligation, picking up some
11 extra monies. Then the other piece we're dealing with is the securitization of
12 the remaining balance. I'd like for us to probably go ahead and deal with the
13 least controversial piece of that, which is the restructuring of our current
14 sale, and get that off the table, and then we can start a discussion on the rest
15 of it, if you wouldn't mind. Does that make sense?

16 MR. STEPHENSON: Yes, sir. I just want to be
17 sure there are no other questions before the motion comes.

18 SENATOR HAWKINS: Everyone needs to
19 understand that there are two separate discussions that we've entered into.
20 One is that the market is such today that we can go back and restructure the
21 last sale and bring in new revenues that are unrestricted. That's a different
22 thing altogether. The second discussion is, do we securitize the remaining
23 amount of money that we have? Let's separate that first so we can make sure
24 everyone knows what we're dealing with.

25 DELEGATE KILGORE: Mr. Chairman, I'd like to

1 make the first motion dealing with the restructuring of the sum that we have
2 already, the 2005 number.

3 MR. STEPHENSON: Item number five.

4 DELEGATE KILGORE: The Executive
5 Committee recommends, and I so move, that the Commission advise the
6 Tobacco Settlement Financing Corporation of the Commission's desire to
7 restructure the Tobacco Settlement Asset-Backed Bonds, Series 2005, with
8 the particular terms of such restructuring to be those deemed by the
9 Corporation to be favorable. The Committee recommends that the
10 transaction, if any be made, remain tax-exempt with respect to the current
11 amount outstanding, and taxable with respect to additional net proceeds.
12 The Committee further recommends a final rated maturity not to exceed 55
13 years with an investment grade rating on any capital appreciation bond lien
14 that may be used in the structure.

15 SENATOR HAWKINS: That motion is separate.
16 It's been moved and seconded, this motion we're talking about a
17 restructuring of that that we've already done, except we pick up an extra
18 amount of revenue, and the projection is 125 million. That brings the initial
19 sale significantly up to what I think we have anticipated today. Any
20 discussion on this piece? Any questions?

21 MR. DAY: Mr. Chairman, I appreciate the
22 wizardry of anything that allows us to pick up \$125 million by making a
23 simple motion.

24 SENATOR HAWKINS: That's why we're in the
25 capital of Virginia, we're able to pull rabbits out of the hat.

1 MR. DAY: I'm all for it.

2 MR. STEPHENSON: Mr. Chairman, it may be
3 worth noting that this motion is to recommend this to the Financing
4 Corporation. It's really their call, and after today it will be done under their
5 judgment, based on the information they have at the moment.

6 DELEGATE KILGORE: Do we remind the folks
7 who that is?

8 MR. STEPHENSON: I was advised a couple of
9 days ago that the Financing Corporation person, their terms are up, and the
10 reappointment has not yet been settled, so I don't know who the players are.
11 I try to stay out of that.

12 SENATOR HAWKINS: Is this the same structure
13 we got with the last securitization we went through?

14 MR. STEPHENSON: It is. The point being that
15 this is really not ours to do, it's the Financing Corporation, and they have to
16 make judgments on the fly. When you get back to this meeting in April, the
17 deal that gets done may not mirror exactly what you have before you today,
18 because the market moves, and they have to impose their judgment on what's
19 going on or pull it down if it's a bad deal, and you're in their hands.

20 SENATOR HAWKINS: Does everyone
21 understand what we're discussing? It's been moved and seconded, all those -
22 - Secretary Wagner.

23 SECRETARY WAGNER: Mr. Chairman, there
24 still are people in these positions. The same individuals that did this two
25 years ago when we securitized are familiar with it, and my recommendation

1 is to keep the same team in place.

2 SENATOR HAWKINS: With that explanation,
3 any other questions? Any discussion? All those in favor of this piece of our
4 discussion today say aye? (Ayes.) Opposed? (No response.) The
5 restructuring we will ask them to go ahead and do and get that done.

6 Now, getting back to the other part, which is the option or not
7 of securitizing the remaining amounts of money that we have, which will
8 take all the monies that we have been given by the Commonwealth in trust
9 and putting them into a trust fund basically that we'll be dealing with until at
10 least when Stephanie retires, basically. Go ahead and make your motion.

11 DELEGATE KILGORE: Mr. Chairman, I'm going
12 to make a motion on behalf of the Executive Committee that we
13 recommended to the Commission by the Governor and the Tobacco
14 Settlement Financing Corporation of the Commission's desire to securitize
15 the remaining 25 percent of the Master Settlement Agreement revenues
16 which are allocated to the Commission, with the particular terms of such
17 securitization to be those deemed by the Governor and the Corporation to be
18 favorable. The Committee recommends that the transaction, if any be made,
19 be through the issuance of taxable bonds, with a rated final maturity not to
20 exceed 55 years, and with an investment grade rating on any capital
21 appreciation bond lien that may be included in the structure. And I so
22 move.

23 SENATOR HAWKINS: There's a motion and
24 there's a second, does everyone understand the motion now? Now,
25 discussion point? Remember, we are requesting that this be done by the

1 same process we went through the last time, and the Governor has to sign off
2 on this as well. It's a fairly involved process, and I understand the reason
3 we're being asked to consider this today, there's a window of opportunity of
4 about eight weeks that it takes us to get to this stage of the sale, is that
5 correct?

6 MR. STEPHENSON: That's close. I understand
7 that the market conditions are favorable for this transaction right now. Our
8 financial advisor indicates it would take about eight weeks for us to get to
9 market.

10 SENATOR HAWKINS: The reason that
11 discussion is carried on today in this manner, my understanding is that other
12 states, other communities are doing the same thing we're doing today on the
13 effects of securitizing their money, they're getting ready to go to market as
14 well. Persons that get to the market at the most opportune time are the ones
15 that will probably come out with the best possible scenario for the monies
16 that they're offering for sale. The more bonds offered the more saturated the
17 market gets, so we're trying to get ahead of the curve. That's the reason for
18 the discussion we're having today. Am I correct?

19 MR. STEPHENSON: I believe that to be true.

20 SENATOR HAWKINS: Let's move on with the
21 discussion. Are there any questions?

22 DELEGATE DUDLEY: Mr. Chairman.

23 SENATOR HAWKINS: Delegate Dudley.

24 DELEGATE DUDLEY: May I ask one of our
25 members a question?

1 SENATOR HAWKINS: You certainly may, may
2 not answer it, but you can ask.

3 DELEGATE DUDLEY: I think she will. I
4 assume then, Jody, from hearing what a great deal this is, you're
5 recommending to the Governor that we sell, as the Commonwealth, the other
6 50 percent that we hold, 40 percent?

7 SECRETARY WAGNER: The whole
8 Commonwealth holds a hundred percent. You sold 25 percent, and you're
9 proposing to sell the next 25 percent.

10 DELEGATE DUDLEY: The Commonwealth then
11 holds 40?

12 SECRETARY WAGNER: Forty percent of the
13 general fund, and 10 percent of the money goes to the Foundation.

14 DELEGATE DUDLEY: Are you recommending
15 that the Governor sell the Commonwealth's 40 percent?

16 SECRETARY WAGNER: No, sir.

17 SENATOR HAWKINS: Now, let's have this
18 discussion at this point. The Commonwealth has other streams of revenue to
19 balance their budgets. The Commonwealth has a way of raising additional
20 revenues when they see fit to do so. Our Commission has one source of
21 revenue, based on assumptions that we have no control of the market place.
22 That discussion involves entirely two different animals. The State of
23 Virginia can take a risk on various things because they have other means to
24 raise revenue, and we do not. This is the only child we have to raise.

25 DELEGATE DUDLEY: Are you referring to the

1 gas tax?

2 SENATOR HAWKINS: The State of Virginia has
3 all types of ways and means to get where they need to go to balance their
4 budget. We have obligations to our communities. For the Commission, this
5 is all that we have, and we have to make sure that the fiduciary responsibility
6 is held to the highest standard.

7 MR. DAY: Mr. Chairman, I'm going to vote for
8 this. I think I do understand it. In simple terms and round numbers, what
9 we're doing today is proposing to sell a dollar in the future for fifty cents this
10 morning. We'll be able to take that fifty cents and do one of two things with
11 it, spend it or invest it. If we invest it, it will earn us some money. The risk
12 involved is that we are betting that that future dollar is worth only fifty cents
13 as the sellers. The buyers are betting that the future dollar is worth more
14 than fifty cents. Is that how you see it?

15 SENATOR HAWKINS: I think you're correct in
16 your assumptions, except there's one part of the discussion that has not been
17 brought out. The monies we invest create jobs and create taxes for our
18 communities. In order to get a true picture of what we're talking about, if
19 you invest that fifty cents that we're taking in to jobs, it creates wealth in
20 these communities, stability in the communities, and jobs and education
21 have to also be factored in what we're talking about. It's not done in an
22 abstract. We're talking about immediate investments in communities and
23 immediate investment in jobs and immediate investments in infrastructure
24 improvements, such as the Broadband and everything that we're dealing
25 with. I think that has to be part of the discussion today.

1 MR. DAY: Mr. Chairman, I think that's pretty
2 much a utopian view. I'm not sure that I could name any instance in the
3 history of the planet where the government created wealth. I can name any
4 number where the government in fact consumed wealth.

5 SENATOR HAWKINS: We're not the
6 government, we are a private, we're not the Commonwealth, but we're a
7 subdivision of the Commonwealth that is making investments in
8 infrastructure. I think the telecommunication piece and the backbone is
9 indeed creating wealth in our communities. The monies we have invested
10 have added to that capability of our communities to be competitive. We
11 can't create the wealth, but we can certainly provide for the tools so that
12 wealth can be created by individuals by some of the work by their own
13 hands, and that's all we can do.

14 MR. DAY: Mr. Chairman, I concede.

15 SENATOR HAWKINS: Any other discussion?
16 This is a very important decision, and we need to stay here as long as it takes
17 to make sure everyone is comfortable with what we're doing.

18 Delegate Wright.

19 DELEGATE WRIGHT: Mr. Chairman, earlier
20 you made the remark that if we do the securitization, then the allocation
21 process will need to be looked at as well.

22 SENATOR HAWKINS: That's just my opinion.

23 DELEGATE WRIGHT: You said to do one, the
24 other should follow.

25 SENATOR HAWKINS: That's my opinion.

1 DELEGATE WRIGHT: I think, as far as this
2 business deal, this could be argued either way. I can see the advantages of
3 securitization, and I can see the advantages in some of the points that Bernie
4 has made. I have serious concerns about doing away with the formula we
5 currently have for the allocation.

6 SENATOR HAWKINS: That's a discussion that
7 can take place after the fact, and you'll certainly have a right to be able to
8 express your views. If, in fact, you think we should securitize and leave the
9 formula in place, that is an option that we have. That's a discussion we can
10 have. I've just stated my opinion. I'm just one member of the Commission.
11 It will have to be a Commission decision, as far as what we do, because it
12 takes two-thirds vote of the Commission to change anything.

13 DELEGATE WRIGHT: I understand, Mr.
14 Chairman, but it seems to me that's the direction we're moving in, and I don't
15 really favor that direction. I'll vote against it, even though I'm not convinced
16 it's a bad business deal; it could be very good for the Tobacco Commission.

17 SENATOR HAWKINS: I also want you to
18 understand that any discussion on how we restructure would be based on
19 what we perceive to be the legitimate needs of our communities. We need to
20 work together to reach those ends. We're not here, at least in my mind,
21 to pit one county against another county, city against county, region
22 against region. We're here to put in place the best opportunities for all the
23 people that we're charged to represent. As a member of this Commission, in
24 my humble opinion, I do not represent my county or city, I represent the
25 entire Southside and Southwest region of this Commonwealth, which is

1 the charge given to me by the General Assembly. So we have to look at
2 that in the future. I also understand what you're saying, as well. We'll get
3 there.

4 DELEGATE WRIGHT: Thank you, Mr.
5 Chairman.

6 SENATOR HAWKINS: Any other discussion?

7 DELEGATE HOGAN: Mr. Chairman, I'm
8 wondering if I can ask Mr. Day a question? It's a quick one, Mr. Chairman.

9 SENATOR HAWKINS: Do we have a quick
10 answer?

11 DELEGATE HOGAN: I was trying to figure
12 whether you're for or against it, Barnie?

13 MR. DAY: Mr. Chairman, some of my friends are
14 for this, and some of my friends are against it, and by God, I stick with my
15 friends.

16 SENATOR HAWKINS: That's the way it should
17 be. Does anyone have any questions that they want to ask about what we're
18 about to do? Does anyone have any concerns they want to express? Now is
19 the time to do it.

20 MR. FIELDS: I think we have not looked at
21 maybe the most important thing about this securitization. We're not even
22 sure we're going to get it tomorrow. We're not sure we're going to get the
23 MSA payments next week. I think everyone on this Commission from day
24 one has had some concern about that. The money has been flowing in, and
25 we've forgotten, kind of like homeland security, it's easy to forget when the

1 money starts flowing. I'm still very concerned about whether these
2 payments will continue.

3 MR. DAY: All the more reason to vote for this,
4 too.

5 MR. FIELDS: That's my thoughts, too, and I also
6 stick with my friends, too, Bernie.

7 SENATOR HAWKINS: I'll open it up one more
8 time; is there any other discussion or any other questions to the Staff before
9 we take a vote? All right, would you call the roll.

10 MR. NOYES: Mr. Arthur?

11 MR. ARTHUR: Yes.

12 MR. NOYES: Mr. Banner?

13 MR. BANNER: Favor.

14 MR. NOYES: Secretary Bloxom?

15 MR. DICKINSON: Favor.

16 MR. NOYES: Mr. Bryant?

17 MR. BRYANT: Yes.

18 MR. NOYES: Delegate Byron?

19 DELEGATE BYRON: Pass.

20 MR. NOYES: Mr. Day?

21 MR. DAY: Favor.

22 MR. NOYES: Delegate Dudley?

23 DELEGATE DUDLEY: No.

24 MR. NOYES: Mr. Fields?

25 MR. FIELDS: Favor.

1 MR. NOYES: Secretary Gottschalk?
2 SECRETARY GOTTSCHALK: Favor.
3 MR. NOYES: Mr. Harwood?
4 MR. HARWOOD: Favor.
5 MR. NOYES: Senator Hawkins?
6 SENATOR HAWKINS: Yes.
7 MR. NOYES: Mr. Hite?
8 MR. HITE: Yes.
9 MR. NOYES: Delegate Hogan?
10 DELEGATE HOGAN: Aye.
11 MR. NOYES: Mr. Jenkins?
12 MR. JENKINS: Yes.
13 MR. NOYES: Delegate Johnson?
14 DELEGATE JOHNSON: Yes.
15 MR. NOYES: Delegate Kilgore?
16 DELEGATE KILGORE: Aye.
17 MR. NOYES: Ms. Lane? She's not here.
18 MR. NOYES: Mr. Mayhew?
19 MR. MAYHEW: Yes.
20 MR. NOYES: Mr. Montgomery?
21 MR. MONTGOMERY: Yes.
22 MR. NOYES: Mr. Moody?
23 MR. MOODY: Yes.
24 MR. NOYES: Ms. Nyholm?
25 MS. NYHOLM: Yes.

1 MR. NOYES: Mr. Owens?
2 MR. OWENS: Yes.
3 MR. NOYES: Senator Puckett?
4 SENATOR PUCKETT: Yes.
5 MR. NOYES: Senator Ruff?
6 SENATOR RUFF: Aye.
7 MR. NOYES: Mr. Stallard?
8 MR. STALLARD: Yes.
9 MR. NOYES: Mr. Stith?
10 MR. STITH: Yes.
11 MR. NOYES: Mr. Thompson?
12 MR. THOMPSON: Yes.
13 MR. NOYES: Secretary Wagner?
14 SECRETARY WAGNER: Yes.
15 MR. NOYES: Senator Wampler?
16 SENATOR WAMPLER: Aye.
17 MR. NOYES: Mr. West?
18 MR. WEST: Yes.
19 MR. NOYES: Delegate Wright?
20 DELEGATE WRIGHT: No.
21 MR. NOYES: The motion carries.
22 SENATOR HAWKINS: The motion carries.
23 DELEGATE BYRON: I vote no.
24 DELEGATE KILGORE: We also need a motion
25 to, I'm going to ask for a motion to approve up to \$500 thousand in

1 securitization costs, should the transaction not be completed.

2 Ned, you might want to explain why we need to do that.

3 MR. STEPHENSON: Ladies and gentlemen, that
4 motion was not considered by the Executive Committee last night, although
5 the question was raised, and last night, in consultation with our financial
6 advisor, we sharpened our pencil, and on his advice we feel like 500,000 and
7 not 600,000 is the number you should use as a cap for your costs in the event
8 the transaction fails. If the transaction does not fail, the costs become a part
9 of the net proceeds of the bond. That's a cost-containment motion that we
10 are suggesting, Mr. Vice Chairman, you invite from the Commission today.

11 SENATOR HAWKINS: Any discussion of
12 protecting the lawyers in the Commonwealth? Is the motion seconded? It's
13 been moved and seconded that the money be set aside. Any discussion,
14 questions? All those in favor say aye? (Ayes.) Opposed?

15 DELEGATE DUDLEY: No.

16 SENATOR HAWKINS: Motion carries.

17 The Executive Committee probably started looking at
18 recommendations, and anyone that has any feelings about the direction that
19 we should be going or taking, if you would put it down in some sort of
20 verbiage or talk to someone on the Staff so we'll have some input from all of
21 the people on the Commission based on how we should be approaching
22 these monies, I think it will be the next step of the evolution of this
23 Commission.

24 What I'd like to do now is turn the podium over to Mr. Noyes to
25 conduct some Staff business.

1 MR. NOYES: Thank you, Mr. Chairman.
2 There is one further motion, and Staff has had discussions with the Virginia
3 Tourism Corporation concerning the possibility of filming a feature film
4 about Big Stone Gap. The Executive Director recommends that the
5 Commission authorize the Executive Director to transfer up to \$300,000
6 from fiscal year '06 unobligated carryforward to the Virginia Tourism
7 Corporation for purposes of funding production of a movie, Wise County,
8 provided that the Commission's contribution is matched by a like amount
9 from other sources and is made not later than June 30, 2007.

10 The reason I'm seeking a motion from the Commission on
11 this is that first, this type of activity does not fit neatly within schedules of
12 our regular committee meetings or within the normal purview of our
13 committee structure. These things tend to happen quickly, when and if they
14 happen.

15 SENATOR HAWKINS: A motion has been made,
16 there is a second. It's been moved and seconded that we finance the film
17 office in this regard.

18 MR. DAY: Mr. Chairman, I have a substitute
19 motion. I'd move the same motion but delete the match component. I don't
20 know why we have to burden the film office or that community with a
21 several hundred thousand dollar match to fund this. If this is a good idea,
22 and I think it is, then it ought to go forward, regardless.

23 SENATOR HAWKINS: There is a substitute
24 motion on the table; is there a second to that? No. The primary motion is
25 before us. Any discussion on the primary motion? All those in favor say

1 aye? (Ayes.) Opposed? (No response.)

2 Now we have our Executive Director's report.

3 MR. NOYES: Mr. Chairman, I promised we'd be
4 out of here on time, and we are. Future meetings, the full Commission's next
5 meeting is the 26th of April, and it will be in Wytheville, Virginia, a new
6 venue there.

7 The Special Projects and Technology Committees will be
8 meeting on the 18th of April, also in Wytheville.

9 Southwest Economic Development will be meeting on the 25th
10 of April prior to the full Commission meeting, and that will be in
11 Wytheville.

12 The Executive Committee is currently scheduled to meet on the
13 4th of April, and there will be a full report on the progress of the
14 securitization at that time and any restructuring we need to do, operations for
15 the Staff.

16 That's all, Mr. Chairman.

17 SENATOR HAWKINS: Thank you for your
18 report. Anything else to come before the Commission? Any public
19 comments? All right, going once, twice, we're adjourned.

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21 PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

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I, Medford W. Howard, Registered Professional
Reporter and Notary Public for the State of Virginia at large, do hereby
certify that I was the court reporter who took down and transcribed the
proceedings of the **Virginia Tobacco Indemnification and Community
Revitalization Commission Full Commission Meeting when held on**

1 **Tuesday, January 9, 2007 at 10:00 a.m. in the General Assembly**
2 **Building, House Room C, Richmond, Virginia.**

3 I further certify this is a true and accurate transcript
4 to the best of my ability to hear and understand the proceedings.

5 Given under my hand this day of January, 2007.

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12

Medford W. Howard

13

Registered Professional Reporter

14

Notary Public for the State of Virginia at Large

15

16

17 My Commission Expires: October 31, 2010.